

Message Text

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ACTION XMB-07

INFO OCT-01 ARA-16 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07

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TAGS: ENRG, PE, JA

SUBJ: GOP APPROVES CONTRACTS WITH JAPANESE AND WITH
U.S. CONSORTIUM FOR TRANS-ANDEAN PIPELINE

REF: STATE 203287, LIMA 7416, 7008

1. BY SUPREME DECREE ON SEPTEMBER 10, THE GOP APPROVED
THE THREE CONTRACTS SIGNED AUGUST 28 BETWEEN PETROPERU
AND THE JAPANESE. THE LOANS AS PREVIOUSLY ANNOUNCED ARE
GUARANTEED BY COFIDE, AND INCLUDE 1) \$100 MILLION FROM
JAPAN PETROLEUM DEVELOPMENT CORP. AND JAPAN PERU OIL CO.
FOR JUNGLE OIL EXPLORATION AND EXPLOITATION; AND 2) 230
MILLION FROM JAPAN PERU OIL CO. FOR FINANCING TRANS-
ANDEAN PIPELINE CONSTRUCTION AND PORT FACILITIES AT BAYOVAR.
BOTH CONTRACTS, ARE TO BE PAID PARTIALLY IN CRUDE OIL
DURING A MAXIMUM PERIOD OF 14 YEARS, WITH A FOUR-YEAR GRACE
PERIOD. CASH REIMBURSEMENT WILL BE PAID IN SEMIANNUAL
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NOTES BEARING 6 PERCENT INTEREST FOR THE \$100 MILLION

CONTRACT AND 6.5 PERCENT ON THE \$230 MILLION ON OUTSTANDING AMOUNTS. A THIRD CONTRACT, WITHOUT MENTION OF SPECIFIC CONDITIONS, WAS SIGNED FOR SUPPLY OF CRUDE AND BY-PRODUCTS WITH JAPAN PERU OIL COMPANY.

2. IN SECOND AGREEMENT SIGNED SEPTEMBER 16, PETROPERU APPROVED CONTRACT WITH U.S. CONSORTIUM OF WILLIAMS BROS., SEDCO CONSTRUCTION CORPORATION AND HORN INTERNATIONAL, INC. FOR THE CONSTRUCTION OF THE JUNGLE PORTION OF THE PIPELINE. ACCORDING TO THE OFFICIAL GAZETTE, AGREEMENT IS FOR \$142 MILLION, WITH 35 PERCENT IN LOCAL COSTS. ACCORDING TO THE TERMS OF THE CONTRACT, CONSTRUCTION OF THE CONTRACTORS' SEGMENTS WILL BE COMPLETED WITHIN 20 MONTHS, I.E. BY MAY 24, 1976. THE CONTRACTORS AGREED TO BUILD 458 KMS, OF PIPELINE AND WILL USE JAPANESE-SUPPLIED 24 INCH PIPE FOR THE FIRST SECTION OF 300 KMS. AND GERMAN-MADE 36 INCH PIPE FOR THE SECOND 158 KMS.

3. COMMENT: SIGNING OF JAPANESE LOAN AGREEMENT AND ISSUANCE OF SUPREME DECREE REFLECT ACCEPTANCE OF COMPROMISE BY PERUVIANS AND JAPANESE AS TO PROCEDURES TO BE USED IN CASE OF CONTRACT DISPUTES. JAPANESE AMBASSADOR TOLD DCM SEPTEMBER 16 THAT SETTLEMENT IS BASED ON HAVING BRITISH ARBITRATOR TO DECIDE IN CASES OF DISUPUTES; HOWEVER, AS A "GOOD WILL" GESTURE JAPANESE HAD ACCEDED TO GOP DEMAND THAT DISPUTES NOT BE RESOLVED UNDER JAPANESE OR BRITISH LAWS AND THIS AREA WAS INTENTIONALLY LEFT UNDEFINED.

4. IN REGARD TO U.S. CONTRACTORS' AWARD, WILLIAM BROS. CONSORTIUM HAD BEEN LEADING CONTENDER FOR SOME TIME. IN CONTRAST, INCIDENTALLY, TO PESSIMISM OVER PERU MEETING 1976 TARGET DATE FOR PIPELINE CONSTRUCTION, FOR EXAMPLE, AS EXPRESSED UNANIMOUSLY BY U.S. OILMEN (SEE LIMA 7416) GEORGE LITTLEJOHN, WILLIAMS BROS. REPRESENTATIVE, TOLD EMBASSY OFFICERS THAT THE CONSORTIUM IS CONFIDENT OF FINISHING THEIR SEGMENT BY TARGET DATE.

5. ON SEPARATE BUT RELATED MATTER, EMBASSY OFFICER ALSO HAS PRESENTED EXIMBANK LIST OF PREREQUESTS FOR ADDITIONAL INFORMATION TO SENIOR COFIDE OFFICIAL SEPTEMBER 16 WHO STATED, LIMITED OFFICIAL USE

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IN SOMEWHAT EMBARRASSED MANNER, THAT GOP WOULD FURNISH FULL AND COMPLETE REPLIES WITHIN NEXT FEW DAYS TO EMBASSY FOR TRANSMISSION TO EXIMBANK. EMBASSY OFFICER MADE IT CLEAR THAT CONSIDERATION OF FINANCING BY EXIMBANK IS CONTINGENT ON RECEIPT THESE DATA, IN PARTICULAR DATE ON RESERVES. WORKING LEVEL AT BOTH COFIDE AND PETROPERU SEEM TO UNDERSTAND THIS AND TO RECOGNIZE THAT EXIMBANK FINANCING IS NOT FOREGONE CONCLUSION. NEVERTHELESS, AWARD OF MAJOR CONTRACT TO

U.S. CONSORTIUM WILL INEVITABLY INCREASE EXPECTATIONS AS TO
A SIGNIFICANT EXIMBANK ROLE AT MORE SENIOR LEVELS OF THE
GOP.
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